

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM BOARD OF ADMINISTRATION INVESTMENT COMMITTEE

MINUTES OF MEETING OPEN SESSION

September 15, 2008

The Investment Committee met on Monday, September 15, 2008 in the Lincoln Plaza North Building, Auditorium, 400 Q Street, Sacramento, California.

The meeting was called to order at approximately 9:35 a.m. and the following members were present:

George Diehr, Chair
Priya Mathur, Vice Chair
Marjorie Berte
John Chiang
Rob Feckner
David Gilb, represented by Greg Beatty
Henry Jones
Bill Lockyer
Louis F. Moret
Tony Oliveira
Anne Sheehan
Kurato Shimada
Charles Valdes

Terry McGuire represented John Chiang Steve Coony represented Bill Lockyer

Agenda items were taken out of order to accommodate individual schedules.

AGENDA ITEM 2 - APPROVAL OF AUGUST 2008 MEETING MINUTES

On **MOTION** by Ms. Mathur, **SECONDED** and **CARRIED** that the August 18, 2008 Open Session minutes be approved as presented.

Ms. Berte abstained.

AGENDA ITEM 3 - POLICY SUBCOMMITTEE REPORT

Mr. Jones, Policy Subcommittee Chair, presented the August 18, 2008 Subcommittee Meeting Summary.

On **MOTION** by the Subcommittee, the Investment Committee approved:

- Adoption of the Affiliate Funds Policy
- Repeal of the Annuitants' Healthcare Coverage Fund Policy
- Revision of the International Equity Real Estate Policy, as presented
- Revision of the Alternative Investment Management Program Policy

The Policy Subcommittee also approved its 2009 meeting schedule, noting that it is subject to revision.

The next Policy Subcommittee meeting is scheduled for October 20, 2008, in San Luis Obispo, California.

AGENDA ITEM 4a – TOTAL FUND, CalPERS Total Fund Quarterly Report

Michael Schlachter and Andrew Junkin, Wilshire Associates, presented the Executive Summary of the Investment Performance of the CalPERS Total Fund, Affiliate Funds, Legislators' Fund, Annuitants Healthcare Plan, and the Supplemental Income Plans for the quarter ending June 30, 2008. The consultants also provided a year-end performance review of the total fund, each asset class, and selected portfolios.

It was noted that CalPERS generated a total fund net return of -0.7% for the quarter and -2.6% for the year. The total fund composite lagged its policy benchmark. The System has beaten its weighted policy index and its actuarial rate of return for the 3-year and 5-year periods, and has outperformed against its policy index for the 10-year period.

Nori Gerardo Lietz, PCA-Real Estate Advisors, highlighted written comments regarding the Real Estate quarterly report for the Core portfolio and the Specialized (Noncore) portfolio. It was noted that the results were disparate over the trailing one, three and five year periods. Over the long term, the real estate portfolio has performed well, though more recent results have been disappointing.

Mike Moy, Pension Consulting Alliance (PCA), presented written comments regarding the Alternative Investment Management (AIM) Program performance as reported by Wilshire Associates for the period. Staff has proposed, and PCA and Wilshire have concurred, that it would be more meaningful to compare AIM's results to the Long-Term Performance Objective for reporting purposes.

The Committee accepted the quarterly information reports.

AGENDA ITEM 4c – TOTAL FUND, Cost Effectiveness Measurement (CEM) Benchmarking Annual Survey

Anne Stausboll, Interim Chief Investment Officer, and Matt Flynn, Division Chief-Operations, Performance and Technology, presented the item. Andrew Junkin, Wilshire Associates, was available to respond to questions from the Committee.

Terrie Miller, CEM Inc., presented the information presentation on the annual survey of CalPERS' cost and return performance for the 5-year period ending December 31, 2007.

There was discussion of factors to be included in next year's report, such as incorporation of the 2008 asset allocation transition targets.

The Committee accepted the annual information report.

AGENDA ITEM 4b - TOTAL FUND, Asset Allocation Update

Farouki Majeed, Senior Investment Officer, presented the item. Michael Schlachter, Wilshire Associates, was available to respond to questions from the Committee.

Staff provided a quarterly update on the implementation of the Asset Allocation Policy adopted in December 2007, including the status of asset class interim quarterly targets and actual allocation.

The meeting recessed from 11:25 to 11:35 a.m.

AGENDA ITEM 4d – TOTAL FUND, Issuance of General Pension Consultant Services Spring-Fed Pool and Private Equity Consultant Request for Proposals

Anne Stausboll, Interim Chief Investment Officer, and Matt Flynn, Division Chief-Operations, Performance and Technology, presented the item.

Staff outlined proposed plans to expand and enhance the General Pension Consultant pool to correspond to the growth and complexity of the Investment Program.

On **MOTION** by Mr. Feckner, **SECONDED** and **CARRIED** to:

- 1. Approve the creation of a General Pension Consultant Spring-Fed Pool.
- 2. Approve the continued use of the General Pension Consultant pool for the back-up to the primary consultant and the Committee's Infrastructure Consultant.
- 3. Approve the creation of a stand-alone contract for the Committee's Private Equity Consultant.

Specific proposed services for the spring-fed pool and the stand-alone contract will be presented at the October Investment Committee meeting. The Chair directed staff to include infrastructure and forestland in the proposed services for the spring-fed pool.

AGENDA ITEM 5a – REAL ESTATE, Selection of Special Projects Spring-Fed Pool Consultants

Ted Eliopoulos, Senior Investment Officer, and Randy Pottle, Senior Portfolio Manager, presented the item.

Since the adoption of the Strategic Plan in September 2007, staff has determined that certain consultant specialties are required to implement the Plan's recommendations. On June 25, 2008, a RFP was issued for the Real Estate Special Projects Spring-Fed Pool to solicit the needed consultants. Staff described the proposal review and scoring process and recommended the addition of three consultants in the Spring-Fed Pool.

On **MOTION** by Ms. Berte, **SECONDED** and **CARRIED** to approve the addition of the following consultants to the existing Real Estate Special Projects Spring-Fed Pool:

- David L. Bonuccelli & Associates, Inc.
- Pension Consulting Alliance, Inc.
- Stockbridge Capital Group, LLC

AGENDA ITEM 6 – ALTERNATIVE INVESTMENT MANAGEMENT (AIM) PROGRAM

There were no items to report.

AGENDA ITEM 7a – INFLATION-LINKED ASSET CLASS (ILAC), Implementation Update

Farouki Majeed, Senior Investment Officer, reported on implementation of the ILAC, including the commodities, inflation-linked bonds, infrastructure, and forestland components. An update was provided for each component in the areas of investment policies, staffing, delegations, incentive plan, and investment implementation.

Staff will continue to provide monthly ILAC implementation updates.

AGENDA ITEM 8a – GLOBAL FIXED INCOME, International Fixed Income Managers Annual Review

Curtis Ishii, Senior Investment Officer, and Eric Busay, Portfolio Manager, presented the item. Michael Schlachter, Wilshire Associates, was available to respond to questions from the Committee.

Staff highlighted the performance of the managers and reported that for the review period ending June 30, 2008, the program outperformed its benchmark by 0.14%, returning 17.63%.

On **MOTION** by Mr. Shimada, **SECONDED** and **CARRIED** to renew the contracts for all CalPERS' external international fixed income managers for a period of one year. The five managers are:

- Alliance Bernstein L.P.
- Baring Asset Management
- Mondrian Investment Partners
- PIMCO
- Rogge Global Partners

AGENDA ITEM 9a – GLOBAL EQUITY, Domestic Equity Manager Annual Review

Eric Baggesen, Senior Investment Officer; Kurt Silberstein, Senior Portfolio Manager; and Derek Hayamizu, Portfolio Manager, presented the item. Andrew Junkin and Michael Schlachter, Wilshire Associates, were available to respond to questions from the Committee.

Staff provided an overview of the portfolio construction, current portfolio structure, performance attribution, and future enhancements. The performance of the portfolio has lagged the program's custom benchmark by 1.51% for the fiscal year ending June 30, 2008.

On **MOTION** by Mr. Jones, **SECONDED** and **CARRIED** to renew the contracts for CalPERS' 12 domestic equity managers listed below for a period of one year:

Active Managers

AllianceBernstein L.P. Pzena Investment Management Turner Investment Partners

Marvin & Palmer

Enhanced Managers

Golden Capital Management T. Rowe Price

INTECH

Long/Short 130/30 Managers

Analytic Investors JP Morgan

First Quadrant Quantitative Management Associates

AGENDA ITEM 9b – GLOBAL EQUITY, International Equity Manager Annual Review

Eric Baggesen, Senior Investment Officer; Kurt Silberstein, Senior Portfolio Manager; and Derek Hayamizu, Portfolio Manager, presented the item. Andrew Junkin and Michael Schlachter, Wilshire Associates, were available to respond to questions from the Committee.

Staff reported on the portfolio construction process, current portfolio structure, performance attribution, and future enhancements. The performance of the portfolio has lagged the program's custom benchmark by 0.42% for the fiscal year ending June 30, 2008.

On **MOTION** by Mr. Moret, **SECONDED** and **CARRIED** to renew the contracts for CalPERS' eighteen international equity managers listed below for a period of one year.

Active International Managers

Acadian Asset Management
AllianceBernstein (Growth)
AllianceBernstein (Value)
Arrowstreet Capital
AXA Rosenberg
Baillie Gifford Investment Management
Fidelity (Pyramis Global Advisors)
Grantham, Mayo, Van Otterloo
New Star Institutional Managers
Nomura Asset Management

Enhanced International Managers

AQR Capital Management Quantitative Management Associates

Active Emerging Markets Managers

AllianceBernstein Genesis Investment Management
Batterymarch Financial Management
Dimensional Fund Advisors Lazard Asset Management
Pictet Asset Management

AGENDA ITEM 10a – GLOBAL EQUITY – CORPORATE GOVERNANCE, Review of Corporate Governance Focus List, Proxy, and Education & Influence Program

Eric Baggesen, Senior Investment Officer, and Bill McGrew, Portfolio Manager, presented the item.

Staff provided an update on CalPERS' Corporate Governance Focus List, Proxy, and Education & Influence Program; and reviewed the program objectives and highlighted engagement and leadership strategies in fiscal 2007-2008.

AGENDA ITEM 10b – GLOBAL EQUITY – CORPORATE GOVERNANCE, Corporate Governance Update

There were no items to report.

AGENDA ITEM 11a – SUPPLEMENTAL INCOME PLANS (SIP), Enhancements to Investment Line-Up

Geraldine Jimenez, Division Chief, presented the item. Andrew Junkin, Wilshire Associates, was available to respond to questions from the Committee.

In 2007, the 457 Plan and the Supplemental Contributions Program offerings were changed in Phase I of the fund enhancements. Staff described the current line-up and highlighted the 2008 Phase II enhancements.

AGENDA ITEM 12a – CHIEF INVESTMENT OFFICER'S / CHIEF OPERATING INVESTMENT OFFICER'S REPORT, Consolidated Investment Activity Report

Anne Stausboll, Interim Chief Investment Officer, presented the item.

The Committee accepted the Consolidated Investment Activity Report. The total market value of the fund as of July 31, 2008, was approximately \$235.9 billion and the total book value was approximately \$209.0 billion.

AGENDA ITEM 12b – CHIEF INVESTMENT OFFICER'S / CHIEF OPERATING INVESTMENT OFFICER'S REPORT, Chief Operating Investment Officer's Status Report

The Committee accepted the Chief Operating Investment Officer's Status Report, including the 2008 Annual Agenda Item Calendar.

AGENDA ITEM 13 – DRAFT OCTOBER 2008 AGENDA

The Committee accepted the proposed October 20, 2008 agenda with the following changes:

- Move the Environmental Programs Update item to the November meeting
- Move the Policy on Divestment item to the October Policy Subcommittee agenda
- Add an item on the proposed scope of services for the RFPs for the General Pension Consultant Spring-Fed Pool and Private Equity Consultant

AGENDA ITEM 14 – PUBLIC COMMENT

There were no comments from the public.

The meeting was adjourned at 12:05 p.m.

The next Investment Committee meeting is scheduled for October 20, 2008 in San Luis Obispo, California.

Kenneth W. Marzion
Interim Chief Executive Officer

Investment Committee 7 September 15, 2008